

Message Text

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ACTION STR-07

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ARA-10 EA-10 EUR-12 NEA-10 /173 W
-----013741 211746Z /43

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TO SECSTATE WASHDC PRIORITY 2413
INFO ALL EC CAPITALS

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USMTN, USEEC
ACTION STR PASS ELECTRICALLY
STR PASS CODEL

E.O.11652:N/A
TAGS: MTN, ETRD, EEC
SUBJECT: US-EC TARIFF NEGOTIATIONS

REF: GENEVA 10554

1. SUMMARY. THIS REPORT COVERS A WEEK OF DAILY MEETINGS BETWEEN THE U.S. (MCNAMARA ET AL) AND THE EC (DUGIMONT ET AL) ON INDUSTRIAL TARIFFS IN THE RUSH TO JULY 15. AT THIS LEVEL, THE EC WAS NEGATIVE OR AT BEST AMBIGUOUS, OFFERING NO CREDIT BUT THREATENING TO WITHDRAW OFFERS IF THE U.S. PULLED BACK ON ITS GREATER-THAN-FORMULA OFFERS; PRESSING FOR CONCESSIONS ON U.S. CRITICAL ECONOMIC AND MANDATORY EXCEPTIONS, REJECTING VIRTUALLY EVERY LINK TO OUR ASP OFFER, AND DERIDING OUR INFORMAL PROPOSAL ON CERAMIC DINNERWARE. AFTER TAKING A TENTATIVE STEP FORWARD
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ON IMPROVEMENTS, THEY FELL BACK WHEN WE PUT THE BALL IN THEIR COURT. IN PART, THEY MAY HAVE BEEN GETTING MIXED SIGNALS FROM THE COMMISSION AND THE 113 COMMITTEE, WHO WERE MOVING THEIR POSSIBLE WITHDRAWALS TO EXCEPTIONS, WHILE AT THE SAME TIME ANXIOUS TO PREVENT A BREAKDOWN IN THE NEGOTIATIONS. THEY MAY ALSO HAVE BEEN PREPARING A DEFENSE AGAINST U.S. TEXTILE AND APPAREL AND STEEL WITH-

DRAWALS, WHICH THEY CLEARLY ANTICIPATED. ON AIRCRAFT, THEY WERE WILLING TO MOVE AHEAD, THOUGH CAUTIOUSLY, AND THEY WERE ESPECIALLY ANXIOUS THAT THE U.S. MARKET REMAIN OPEN TO EUROPEAN AIRCRAFT. END SUMMARY.

2. U.S. REQUESTS FOR IMPROVEMENT OR MAINTENANCE OF EC OFFERS.

(A) DRAWING ON TPSC 78-93 FOR GUIDANCE ON RELATIVE U.S. PRIORITIES, MTN DEL CONDUCTED A PROTRACTED AND AT TIMES REPETITIVE REVIEW OF U.S. INTEREST ITEMS AFFECTED BY EC POSSIBLE WITHDRAWALS. EC DEL, WITH INPUT FROM DG III REP (EITHER LISSOK OR DERISBOURG) GENERALLY RESTATED RATIONALE FOR EC ACTION THAT WE HAD HEARD AT PREVIOUS SESSIONS, ADDING LITTLE TO U.S. UNDERSTANDING OF WHERE EC MIGHT HAVE NEGOTIATING FLEXIBILITY. THE EC DEL AVOIDED, HOWEVER, EXPLAINING POSSIBLE WITHDRAWALS AS EC REACTION TO OTHERS' OFFERS, THEREBY INCHING CLOSER TO ACKNOWLEDGING THAT EC POSSIBLE WITHDRAWALS WERE ECONOMIC EXCEPTIONS IN THE CLASSIC SENSE. WE DETECTED SOME FLEXIBILITY BUT EC APPARENTLY HAS NOT EXAMINED POSSIBILITY OF EX-OUTS.

(B) CHEMICALS WAS THE SOLE AREA WHERE EC STATEMENTS CARRIED DISCUSSIONS ONTO MORE FERTILE GROUND. DG III CHEMICALS DIVISION DIRECTOR (SCHAEFFER) REVEALED THAT THE EC COULD NOT RESTORE OFFERS ON FERTILIZERS, "PRECURSORS TO LIMITED OFFICIAL USE

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PLASTICS, AND BULK PLASTICS IN GENERAL" NOW ON WITHDRAWALS LIST. U.S. DEL VIGOROUSLY CHALLENGED EC JUSTIFICATION FOR EXCEPTIONS IN THESE AREAS, BUT DISCUSSION ENDED WITHOUT SCHAEFFER RETRACTING OR SOFTENING HIS EARLIER STATEMENT.

(C) IN THE COURSE OF DISCUSSIONS ON IMPROVEMENTS, EC DEL TOLD US IT WOULD PARTIALLY RESTORE OFFERS ON FOUR COPPER ITEMS (74.03B, 74.04A, 74.04B, 74.07), BUT THAT IT WOULD HAVE TO TAKE FURTHER PARTIAL WITHDRAWALS IN THIS SECTOR IN ORDER TO RATIONALIZE CXT RATE STRUCTURE (SEE REFTEL FOR ITEMS AFFECTED).

3. U.S. GREATER-THAN-FORMULA OFFERS.

(A) THROUGHOUT DISCUSSIONS, U.S. PRESSED EC TO RESPOND TO U.S. GREATER-THAN-FORMULA (GTF) OFFERS. WE TRIED TO ALLAY EC CONCERNS RE THE ULTIMATE OUTCOME OF THIS ASPECT OF THE NEGOTIATIONS BY STATING THAT DISCUSSION OF THE CREDIT U.S. WOULD EXPECT FOR THESE OFFERS COULD BE LEFT OPEN AT THIS POINT. EC TOLD US THAT 113 COMMITTEE WAS NOT PREPARED TO ALLOW EC NEGOTIATORS TO GIVE INDICATIONS OF SPECIFIC INTERESTS UNTIL THE U.S. HAD SERIOUSLY BEGUN TO DISCUSS

IMPROVED OFFERS ON EXCEPTED ITEMS. WE REPLIED THAT WITHOUT AN EXPRESSION OF INTEREST ON THE EC'S PART, THE U.S. ANTICIPATED WITHDRAWALS BACK TO FORMULA OFFERS ON ALL GTF OFFERS WHICH BENEFIT THE EC. AFTER A QUICK CHECK WITH DENMAN, THE EC DEL STATED THAT IF THE U.S. DID MAKE SUCH WITHDRAWALS, THEY WOULD HAVE REPERCUSSIONS ON THE EC OFFER. MCNAMARA EXPRESSED PUZZLEMENT, NOTING ON THE ONE HAND THE EC HAD REFUSED TO CREDIT US FOR OUR GTF OFFERS, BUT, ON THE OTHER, WAS THREATENING FURTHER EC WITHDRAWALS WERE WE TO CUT BACK.

(B) COMMENT: WE LEARNED LATER THAT 113 COMMITTEE HAD SO FAR APPROVED FIVE ITEMS, ALL IN THE MACHINERY SECTOR (NO FURTHER DETAILS), WHERE EC DEL COULD REQUEST THAT U.S. MAINTAIN ITS GTF OFFERS. END COMMENT.
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4. BILATERAL EXCHANGE OF IMPROVEMENTS.

(A) THE EC UNEXPECTEDLY OFFERED "POSSIBLE GTF IMPROVEMENTS" ON TEN ITEMS NOT ON THE POSSIBLE WITHDRAWALS LIST,

SIX OF WHICH WE HAD REQUESTED AND THREE OF WHICH WERE HIGH PRIORITY REQUESTS. THESE RANGED FROM THE ELIMINATION OF THE DUTY ON ARTICLES OF ASPHALT (BTN 68.08) TO AN EIGHT-TENTHS OF A POINT REDUCTION ON INSTRUMENTS FOR MEASURING THE FLOW OF FLUIDS (BTN 90.24C) (SEE REFTEL AND MCNAMARA TO MCDONALD MEMO OF JULY 9, HANDCARRIED TO WASHINGTON BY HART).

(B) IN RESPONSE TO THE EC POSSIBLE IMPROVEMENTS AND TO ESTABLISH A MOMENTUM IN THIS DIRECTION, WE RESPONDED ON JULY 8 WITH SOME POSSIBLE IMPROVEMENTS OF LIKE KIND AND QUALITY. THESE COVERED SIX ITEMS DRAWN FROM TPSC 78-94, THREE OF WHICH THE EC HAD REQUESTED. TOTAL U.S. IMPORTS OF THESE ITEMS FROM THE EC AMOUNTED TO ABOUT \$115 MILLION (LIST ATTACHED TO MEMO NOTED ABOVE).
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(C) EC THANKED U.S. FOR THESE IMPROVEMENTS DURING DISCUSSIONS BUT NOTED THAT IT DID NOT CONTAIN PRIORITY ITEMS. U.S. LATER INDICATED THAT POSSIBILITY EXISTED FOR IMPROVEMENT ON WATCHES AND SOME ASP CHEMICALS BUT PROVIDED NO DETAILS WHAT SUCH IMPROVEMENTS WOULD BE. U.S. DEL ALSO INDICATED THAT MODIFICATIONS AND SIMPLIFICATIONS OF TEXTILE SCHEDULE COULD PROVIDE IMPROVEMENTS OF INTEREST TO EC BUT AGAIN THIS DISCUSSION NEVER REACHED POINT OF SPECIFIC ITEMS BEING IDENTIFIED.

(D) AS SESSIONS WORE ON, THE EC, APPARENTLY AWARE OF U.S. DOMESTIC PRESSURES TO WITHDRAW LARGE BLOCKS OF THE U.S. OFFER IN TEXTILES AND APPAREL AND STEEL, PUSHED TO LEARN OUR INTENTIONS. WE ACKNOWLEDGED THAT OUR OFFER IN THESE AREAS WAS BECOMING INCREASINGLY DIFFICULT TO MAINTAIN FOR A NUMBER OF REASONS, INCLUDING THE EC'S EXPRESSED INTENTION TO DEFER THE BEGINNING OF STAGING ON THESE ITEMS UNTIL 1982 -- THEREBY HAVING ONLY THREE-EIGHTHS OF THE CONCESSIONS IN EFFECT AT THE TIME OF THE BREAK CLAUSE DECISION -- AND OUR ASSESSMENT THAT OUR STEEL CONDITION HEADNOTED TO OUR JANUARY 23 OFFER HAD NOT BEEN SATISFIED. THE EC NOTED THAT A WITHDRAWAL ON STEEL AND PRESUMABLY ON TEXTILES AND APPAREL AS WELL, WOULD PROMPT EC WITHDRAWALS IN OTHER AREAS.

5. EC REQUESTS FOR IMPROVEMENTS.

EC WENT WELL BEYOND PREVIOUS STATEMENTS IN NARROWING ITS PRIORITIES FOR IMPROVEMENTS ON U.S. EXCEPTED ITEMS. OUTSIDE THE AREAS OF THE ASP OFFERS, AND CERAMIC DINNERWARE REVISIONS, THE EC MENTIONED WOOLEN TEXTILES (WOOLEN FABRIC, SWEATERS, WOOL SUITS); COTTON TEESHIRTS AND WOVEN

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COTTON FABRICS WHERE THE EC IS PRINCIPAL SUPPLIER; WATCHES; WALL CLOCKS; WATCH CASES; SCISSORS; HIGH FASHION FOOTWEAR (EC WILL PROPOSE EX-OUT); LEATHER HANDBAGS; BICYCLES AND PARTS; CERAMIC FLOOR AND WALL TILES; GLASSWARE, ESPECIALLY LEAD CRYSTAL; TITANIUM DIOXIDE; AND WROUGHT AND UNWROUGHT TITANIUM.

6. U.S. ASP OFFERS.

(A) AS SESSIONS PASSED, EC BECAME MORE AND MORE SPECIFIC IN ITS CONCERNS WITH THE MANNER AND STRUCTURE OF THE U.S. ASP RATE CONVERSIONS AND THE OFFERS IN THIS AREA. EC DEL CONTINUALLY TRIED TO DERIDE THE VALUE OF ASP OFFER BY CITING EXAMPLES OF WHAT THEY CALLED "QUALITATIVE DEFICIENCIES" IN THE EXISTING OFFER. EC STATED THAT WHEN IT HAD LOOKED AT USITC PROPOSED ASP CONVERSIONS (THOSE INCLUDED IN THE PREHEARING PUBLIC NOTICE), THEY FOUND THEM "FAIR," BUT THAT THE FINAL RESULT WAS ACTUALLY QUITE DIFFERENT FROM THIS INITIAL EFFORT. EC DISSATISFACTION CLEARLY STEMMED FROM THE GROUPING OF COMPETITIVE ARTICLES IN THE BASKET CATEGORIES. EC DEL POINTED OUT THAT U.S. EXCEPTIONS AND LESS-THAN-FORMULA CUTS ON ASP CHEMICALS CENTERED HEAVILY ON BASKET PROVISIONS WHICH CONTAINED THE BULK OF COMPETITIVE PRODUCTS, NOTING THAT NEW OR INNOVATIVE CHEMICAL PRODUCTS WOULD BE CLASSIFIED IN THESE BASKETS AT HIGHER RATES. WE RESPONDED THAT U.S. OFFER ON ASP ITEMS WAS NOT ONLY SUBSTANTIAL BOTH IN TERMS OF TRADE COVERAGE AND NUMBER OF ITEMS RECEIVING FORMULA CUTS, BUT ALSO OFFERED EC SUBSTANTIAL BENEFITS IN THAT THE ASP VALUATION METHOD WOULD BE ELIMINATED. WE REMINDED THE EC THAT OUR CONVERSION AND ELIMINATION OF ASP SYSTEM WAS NOT WITHOUT THE NEED FOR ADDITIONAL COMPENSATORY ACTION ON THEIR SIDE AND DREW UPON TPSC INSTRUCTIONS IN REVIEWING U.S. REQUESTS FOR COMPENSATORY EC ACTION. EC DEL WOULD OFFER NO INDICATION THAT IT WOULD MEET ANY OF THE U.S. REQUESTS LISTED FOR THE ELIMINATION OF ASP AND THE MAINTENANCE OF

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USMTN, USEEC
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THE U.S. OFFER ON ASP CHEMICALS.

(B) TOWARD LATTER PART OF WEEK, U.S. DEL INDICATED
THAT SOME IMPROVEMENT MIGHT BE POSSIBLE ON ASP CHEMICAL
ITEMS INCLUDING IMPROVEMENTS THAT MIGHT LESSEN THE
NEGATIVE EFFECT OF CERTAIN OF THE BASKET CATEGORIES AS
PRESENTLY DRAWN IN THE ASP OFFER. THE EC PROMISED TO
STUDY ANY NEW PROPOSALS U.S. COULD MAKE, BUT DOUBTED
THAT THERE WAS ANY TECHNICAL MEANS OF SOLVING THIS
PROBLEM SHORT OF REVERSING THE NOMENCLATURE (I.E.,
COMPETITIVE PRODUCTS WOULD BE NAMED AND NONCOMPETITIVE
ONES WOULD FALL IN THE BASKETS) OR IMPROVING THE U.S.
OFFER ON THE BASKET CATEGORIES.
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7. CERAMIC DINNERWARE SCHEDULE.

AS IN THE CASE WITH THE ASP OFFER, THE EC MADE EVERY
EFFORT TO DOWNGRADE THE VALUE OF AN OFFER IF BASED UPON

THE DOCUMENTS SHOWN TO THEM IN WASHINGTON. AGAIN, THEY FOUND THAT THE CONVERSION AND SIMPLIFICATION OF THE SCHEDULE HAD MANY PROBLEMS AND SEVERELY REDUCED THE VALUE OF ANY OFFERS IN THIS AREA. THEY MENTIONED THAT THE PRICE BREAKS WERE TOO HIGH AND IN A SPECIFIC EXAMPLE, NOTED THE CREATION OF THE NEW ITEM FOR EARTHENWARE HOTELWARE, TSUS 533.20, WHICH WOULD RESULT IN A SUBSTANTIAL RATE INCREASE ON THESE ARTICLES. MANY IMPORTANT ITEMS TO THE EC, PARTICULARLY SOME MADE BY UK PRODUCERS, WOULD BE DUTIABLE AT HIGHER RATES THAN AT PRESENT. U.S. DEL WAS UNEQUIVOCAL IN STATING THAT THE CERAMIC DINNERWARE SCHEDULE WAS IN FACT A MAJOR POLITICAL CONCESSION BY THE U.S. WHICH WAS HEAVILY NEGOTIATED BY REPRESENTATIVES OF DOMESTIC PRODUCERS AND EC EXPORTERS ALIKE, AND THAT EFFORTS TO MINIMIZE THE IMPORTANCE OF THIS U.S. ACTION WERE UNLIKELY TO AID THE EC IN OBTAINING ANY MODIFICATION OR ADJUSTMENT. RATHER, THE EC SHOULD WELCOME THAT A REVISED SCHEDULE, HOLDING THE POSSIBILITY OF FUTURE CONCESSIONS, WAS AVAILABLE AT ALL.

8. EC CONCESSIONS TO LDC'S

(A) U.S. HAD RECEIVED LIST EARLY IN THE WEEK OF ARTICLES WHICH WOULD APPEAR IN SO-CALLED LISTS G AND E (I.E., WITHDRAWALS AND IMPROVEMENTS FOR S AND D REASONS; SEE MARSH MEMO HANDCARRIED TO WASHINGTON BY SHARK). WHILE EC DEL WOULD NOT GIVE US PROPOSED NEW RATES SINCE NEGOTIATIONS WERE ONLY THEN BEING STARTED WITH LDC'S ON POSSIBLE CONCESSIONS, EC CLAIMED THAT THERE WAS OVERALL LIMITED OFFICIAL USE

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BALANCE IN THE LISTS IN TERMS OF THEIR EFFECT UPON U.S. TRADE. U.S. NOTED THAT IT DOUBTED FROM EARLIER INDICATIONS OF CONTENT AND SCOPE OF LIST THAT THERE WAS ACTUALLY QUALITATIVE BALANCE ALTHOUGH TRADE COVERAGE OF WITHDRAWALS AND IMPROVEMENTS WAS SIMILAR.

(B) COMMENT: USMTN DEL ANALYSIS OF LIST USING RATES AS SHOWN IN EARLIER DOCUMENT RECEIVED BY USEC BRUSSELS CONFIRMS THAT LIST HAS A MORE NEGATIVE IMPACT ON U.S. THAN DOES THE VALUE OF EC OFFERS. HOWEVER, NEGATIVE EFFECT IS SUBSTANTIALLY OFFSET IF EC AGREES, PER U.S. REQUEST, TO DOUBLE SIZE OF DUTY-FREE TARIFF RATE QUOTA ON CERTAIN CLASSES OF SOFTWOOD PLYWOOD AND OTHER LAMINATED WOOD PRODUCTS (CXT 44.15). END COMMENT.

9. AIRCRAFT NEGOTIATIONS.

US-EC NEGOTIATIONS ON NONTARIFF ASPECTS OF THE AIRCRAFT SECTOR WERE LED BY HEIMLICH (STR) AND ABBUHL (COMMERCE) WITH DERISBOURG AND DUGIMONT AS PRINCIPAL EC SPOKESMEN,

ASSISTED BY PREVICI, DIRECTOR OF AEROSPACE DIVISION OF
DG III. THE EC VIEWS THE SESSION AS "EXPLANATORY TALKS"
SINCE THEY HAD NO MANDATE TO NEGOTIATE. NEGOTIATING
EFFORTS WERE DIRECTED TOWARD A "COMMON SENTENCE OR TWO"
FOR INCLUSION IN THE JULY 13 "FRAMEWORK OF UNDERSTANDING"
TEXT; NEVERTHELESS, SOME EC COMMENTS ON PARTICULAR PARTS
OF THE SIX POINT DRAFT SHOULD BE REPORTED. (A) DUTY
ELIMINATION -- EC COULD ENVISAGE A POSSIBILITY OF
ELIMINATING DUTIES ON AIRCRAFT, PARTS OF AIRCRAFT,
ENGINES AND PARTS OF ENGINES. THEY WERE LESS FORTHCOMING
ON AVIONICS, AND CLEARLY LINKED DUTY ELIMINATION -- MANY
OF THEIR DUTIES ON AIRCRAFT PARTS ARE SUSPENDED BUT NOT
BOUND FREE -- TO AMENDING SECTION 466 OF THE TARIFF ACT
OF 1930, TO ELIMINATE THE DUTY ON THE REPAIR IN EUROPE OF
AT LEAST EUROPEAN AIRCRAFT REGISTERED IN THE U.S.
(B) GOVERNMENT DIRECTION OF NATIONAL AIRLINES -- THE
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EC TOSSED OUT THE IDEA THAT A STATEMENT OF GOODWILL
INTENTION MIGHT BE SUFFICIENT. WE REPLIED THAT, WHILE WE
MIGHT ACCEPT A GENERAL STATEMENT, THE U.S. WOULD WANT TO
PURSUE DEVELOPMENTS IN THIS SECTOR. EC FURTHER VOLUNTEERED
THAT THEIR GOAL WAS TO ESTABLISH A RELATIONSHIP BETWEEN
AIRLINES AND AIRCRAFT MANUFACTURERS LIKE THAT IN THE U.S.

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(I.E., AIRLINES INDICATE WHAT THEY WANT, A MANUFACTURER MEETS THE NEED, AND A LAUNCHING ORDER IS LET).
(C) INDUSTRIAL COMPENSATION -- EC SAW THIS SECTION AS BEING TOO NEGATIVE IN LANGUAGE, REMARKING THAT SOME COOPERATION ARRANGEMENTS WERE THE NORMAL WAY OF DOING BUSINESS. U.S. TEAM RESPONDED THAT WE DIDN'T SEE ANYTHING WRONG WITH SUCH ARRANGEMENTS ARRIVED AT ON COMMERCIAL, RATHER THAN GOVERNMENT DICTATED, TERMS. WE ALSO NOTED THAT WE WERE INTERESTED IN PREVENTING THE SPREAD TO COMMERCIAL AIRCRAFT OF OFFSET PRACTICES AS USED IN MILITARY PROCUREMENT. (D) EXPORT CREDITS -- EC WOULD HAVE PREFERRED SHIFTING THIS TOPIC TO AUGUST WASHINGTON DISCUSSIONS. WE NOTED OUR INTERESTS WENT FURTHER, TO LEASING ARRANGEMENTS, FOR INSTANCE. (E) CERTIFICATION RULES -- EC KNEW OF NO PROBLEMS WITH CERTIFICATIONS IN WESTERN EUROPE. IN FACT, SEVEN WESTERN EUROPEAN
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GOVERNMENTS HAD ALREADY FORMED A COMMITTEE TO STANDARDIZE AIRCRAFT CERTIFICATION. (F) GOVERNMENT SUPPORT -- IN RESPONSE TO U.S. OPINION THAT GOVERNMENT INDUSTRIES OUGHT TO BE GUIDED BY COMMERCIAL PRINCIPLES, THE EC WAS VAGUELY IN AGREEMENT. (COMMENT: EC WAS WILLING TO COOPERATE ON THE TECHNICAL CONCORDANCE AS SECTOR DUTY ELIMINATION WOULD REQUIRE. WE EXCHANGED WITH THEM DELEGATION-PREPARED TARIFF CONCORDANCES ON BOTH AIRCRAFT AND EQUIPMENT (USMTN DEL VERSION HANDCARRIED BY HEIMLICH) END COMMENT.)

10. DRAFTED BY MALISH/MARSH. MCDONALD

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TARIFF NEGOTIATIONS, TARIFF SCHEDULES
Control Number: n/a
Copy: SINGLE
Draft Date: 21 jul 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978GENEVA11297
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780300-0619
Format: TEL
From: GENEVA USMTN
Handling Restrictions: n/a
Image Path:
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Legacy Key: link1978/newtext/t19780734/aaaabcvu.tel
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Office: ACTION STR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 9
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 GENEVA 10554
Retention: 0
Review Action: RELEASED, APPROVED
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Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
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To: STATE USEEC
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Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014